



COMPREHENSIVE GUIDE©

BY JEFF ELIAS

TIPS ON HELPING PEOPLE IMPROVE THEIR CREDIT SCORES

- **Those with tarnished credit should obtain secured credit cards.** Many banks offer secured credit cards where the consumer gives them \$500 and they provide a credit card with a \$500 credit line. If paid timely, this will help re-establish the consumers credit and credit score.
- **Never go to consumer counseling services when you are applying for home mortgage loans or if you wish to have a good credit score.** This action alerts the credit bureaus that you are unable to pay your bills and may have an effect on your credit score much like a bankruptcy would.
- **Demand that negative credit more than seven years old be removed from your credit report.** The only item that should be on your credit for more than 7 years is a chapter 7 bankruptcy.
- **To obtain a good credit score you must have a good mix of credit accounts, credit cards, bank loans, department stores and finance companies.** People with few accounts should open more and pay timely, but not just before applying for home loans. New accounts should be opened at least six months prior to mortgage loan applications, to avoid lowering credit scores. (This category represents 10% of the credit score.)
- **To obtain good credit scores one must have a lengthy credit history.** This explains why older people generally have higher credit scores than younger people. It is important for young people to establish credit as soon as possible and commit to paying timely. All they have to do to obtain good credit scores is pay the minimum payment as agreed. Credit bureaus are now accepting alternative credit information, such as letters from landlords, telephone companies, power companies and others, so that people who have few credit histories on their credit report can begin building good credit scores. (This category represents 15% of the credit score.)
- **Your credit score does not go down when you check your own credit or a bank does a credit scan on you to determine if they want to offer you a credit card or other loans.**
- **In cases where relatives are willing to provide gifts to help with a home purchase, a relative can give a large gift that can be used to wipe out debts and improve credit scores.** Most relatives know that they can give gifts for the down payment or closing costs to purchase homes, but few know that they can improve their relative's credit scores and ability to qualify. Present estate gift laws allow relatives to give \$13,000 per year to as many people as they want. A couple can give someone \$26,000 tax free and one couple could give another two individuals up to \$52,000 per year. These gifts could be used to wipe out some or all of the debts. A reduction of all debts would lower the available credit used, increasing the credit scores and lowering the debt ratios. The majority of home buyers rejected for loans are rejected because they are over-indebted. Caution: If relatives wish to give gifts to reduce debts, thus improving credit scores, the debts should be paid off at least 30-45 days prior to home loan application, allowing time for posting the debt payoff and the rise in credit scores.
- **Another situation where relatives could help other relatives qualify for mortgage loans would be to provide gifts to buy down the mortgage rate, either permanently or temporarily.** That is, a gift of \$5,000 to buy the interest rate down would lower the interest rate approximately 1% for the entire 30 years of the term, for each \$100,000 of loan amount. It is easier to qualify for a mortgage at 5% than 6%. The same \$5,000 would be enough for a 3-2-1 temporary buydown, which would lower the initial interest rate from 6% to 3%. Once again, it is easier to qualify at 3% than at 6%. Few relatives know that they can provide gifts to buy down the rates and help their relatives qualify for higher loan amounts.
- **If the homebuyer's credit score is not sufficient to obtain the home mortgage loan with the terms that they desire, relatives with better credit scores could act as co-borrower's, to insure that the owner-occupant can obtain better loan terms.** Many lenders allow non-occupant relatives to team up with occupants to obtain high ratio mortgages. CAUTION: The occupant borrowers must have decent credit and be paired up with people with very good credit for this to work.



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Purchasing a home is the largest investment that most people undertake in their lifetimes. Since credit scores are a very important factor in determining what terms the buyer would receive on the financing in the purchase of a home, buyers should know what they can do to improve their credit scores.

The first thing one must do is get his credit scores from the three major credit bureaus, Experian, Equifax and Trans Union, as there are three different scores. Each of these bureaus has slightly different information on each individual, since they sort of compete for the information. Hopefully, the scores are similar or grouped. Scores of 650, 660 and 640 are similar and would indicate no major discrepancies. However, scores of 650, 660 and 570 would indicate that the credit bureau reporting the 570 score has incorrect information that needs to be corrected, as this low score could lower the consumer's average credit score. It could also be the one used by an automobile dealer or other creditor, dramatically affecting the consumer's terms.

- **The homebuyer should locate any error or errors contained in the credit file and immediately challenge the incorrect information in writing by filling out a dispute form located in the back of the credit report.** This written challenge or dispute should be sent via fax or e-mail directly to the credit bureau, with a request for a receipt that they have received the written challenge. Once the credit bureau has received the written challenge, they must notify the retailer of the challenge. Once notified, the retailer has 30 days to respond in writing. If they fail to respond within the 30 day time limit, the consumer is to be given the benefit of any doubt. Once the error has been corrected the credit score would reflect the correction. The fallacy with this system is, it often takes 30-45 days to get a problem corrected and reflected in the credit score. That is why we recommend that the consumer/homebuyer get his credit scores 45-60 before closing on a home loan. That way he will have adequate time to correct errors and have adequate time to improve his credit scores.
- **Do not make inquiries for additional credit such as department stores, automobile dealers, furniture, jewelry stores or apply for additional credit cards.** You do not want a lot of recent inquiries on your credit report as they lower your score. Each inquiry can lower your score 3-5 points. It is OK to shop lenders, as long as they are similar entries within a 30-day time frame, they are to be treated as only one inquiry. (This category is 10% of your credit score.)
- **Pay off as many outstanding balances owed on credit cards and other month to month obligations as possible and cease using your credit cards until after loan closing.** This lowers your debt ratio and lowers the percentage of available credit used. The lower the percentage of available credit used, the better the score. It is a fact that people that are overextended on their debts do not pay as timely as those who are not overextended. Make sure that your balances do not exceed 30% of your available credit line, as your credit score will be lowered. If your balance exceeds 75% of your available line of credit, your credit score will decline substantially. (This category represents 30% of your credit score.)
- **Pay your obligations timely.** Pay before the due date or pay electronically or by check draft, to avoid late payments due to poor mail service. One late payment of more than 30 days in the past year can be more detrimental to a credit score than a bankruptcy that occurred more than 5 years ago! This is due to the weight given to the most recent time frame in credit scoring. (This category represents 35% of your credit score and it is the one that we can do the least about before loan closing.) If a consumer has a late payment of more than 30 days in the past year, he can raise his credit score by paying timely for the next six months. The score will climb substantially after one year of paying timely.
- **Do not use one credit card to pay off another during the 30-45 home closing period, as both credit card balances could show up increasing the available credit used and increasing the debt ratio.**



LOAN APPLICATION – ITEMS NEEDED BY BORROWER

When the home buyer applies for a mortgage loan, he needs to have the following information available for the loan officer:

- **GENERAL INFORMATION**

- Home address and zip code for past 2 years.
- Name and address of landlord for past two years.
- Identification – driver's license and social security card.
- Copy of real estate purchase contract.
- Cash or check to pay for credit report and appraisal.

- **EMPLOYMENT**

- Employment addresses for past 2 years to include zip code and phone.
- Most recent pay stub and W-2s for past two years.
- Self employed borrowers should bring complete tax returns for past two years; plus a current profit and loss statement and a balance sheet prepared by an accountant.

- **PROOF OF ASSETS/SECONDARY INCOME**

- Name, address, account numbers, zip code and phone number for all banking references.
- Copy of bank statements covering the last two months.
- Copies of stocks, bonds.
- Proof of income from pensions or disability.
- Proof of income from rental properties to include current leases, gross rental income and total mortgage payments for each property. Also name, address and zip code of each lender.
- Proof of child support or alimony paid or received, to include divorce decree.

- **VERIFICATION OF CREDIT/DEBTS**

- Name, address, zip code, account number, monthly payment and current balance of all creditors.
- Child care expenses.

- **MISCELLANEOUS**

- Letter of explanation to cover: Gaps in employment, recent career changes, recent increases in bank accounts, and minor credit discrepancies.
- Contract on sale of present home if funds will be coming from this sale.
- Copy of closing statement from previous home sale if within 3 years.
- Veterans applying for VA loan – DD214 and VA certificate of eligibility.
- Company relocation agreement if they pay closing costs or interest differential, or if they are purchasing your present home.

NOTE: Not all of the above items will pertain to all applicants, but having these readily available will save precious time in processing and closing your loan. In some instances where large down payments are being made, lenders may not require as much documentation or they may accept substitute documentation. If you have questions about what you will need, call the loan officer.